

Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 EA-10 NEA-11 IO-13 ISO-00 CIAE-00
DODE-00 PM-05 H-01 INR-10 L-03 NSAE-00 PA-01
SP-02 SS-15 NSCE-00 SSO-00 ICAE-00 INRE-00 CEA-01
STR-07 AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 INT-05 GSA-02 AGRE-00
/136 W

-----115011 161837Z /45

O 161728Z MAY 78
FM AMEMBASSY KINSHASA
TO SECSTATE WASHDC IMMEDIATE 9729
INFO AMEMBASSY BONN
AMEMBASSY BRAZZAVILLE POUCH
AMEMBASSY BRUSSELS
AMCONSUL BUKAVU POUCH
AMEMBASSY JIDDA
AMEMBASSY LONDON
AMEMBCONSUL LUBUMBASHI
AMEMBASSY LUSAKA
AMEMBASSY OTTAWA
AMEMBASSY PARIS
AMEMBASSY PRETORIA
AMEMBASSY ROME
AMEMBASSY TEHRAN
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
US MISSION USUN NEW YORK 1533

C O N F I D E N T I A L SECTION 1 OF 2 KINSHASA 4866

DEPT PASS COMMERCE, EXIM, TREASURY

BRUSSELS ALSO FOR USEEC

E.O. 11652: GDS
TAGS: EGEN, EFIN, CG
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SUBJECT: ECONOMIC EFFECTS OF SHABA CONFLICT

1. SUMMARY: THE FALL OF KOLWEZI AND THE CONSEQUENT SHUT-DOWN OF
GECAMINES' MAIN FACILITIES REDUCE ZAIRE'S MINERAL PRODUCTION BY
ROUGHLY 75 PERCENT. MINERAL EXPORTS ACCOUNT FOR 70 PERCENT OF
ZAIRE'S FOREIGN EXCHANGE (FX) EARNINGS, AND THUS THE LOSS OF
KOLWEZI WILL CAUSE AN ALMOST IMMEDIATE DROP IN EXPORT REVENUES AND

GOVERNMENT TAX RECEIPTS. HOWEVER, THE FULL EFFECT OF THE CUTBACK WILL BE DELAYED SIX TO EIGHT WEEKS LARGELY BECAUSE OF SUPPLIES IN THE PIPELINE. ACCORDING TO THE LATEST BANK OF ZAIRE (BOZ) ESTIMATES, 1978 MINERAL RECEIPTS WERE PROJECTED AT Z900 MILLION (ONE ZAIRE EQUALS ONE SDR) OR ROUGHLY \$1.125 BILLION. KOLWEZI WAS TO ACCOUNT FOR Z650 MILLION OF THIS TOTAL. ZAIRE' NET FX LOSSES WILL BE SUBSTANTIALLY LESS, HOWEVER, DUE TO THE 45 PER CENT IMPORT CONTENT OF GECAMINES' PRODUCTION. THE LOSS OF GECAMINES' KOLWEZI PRODUCTION WILL RESULT IN IMMEDIATE PRODUCTION CUTBACKS IN OTHER SECTORS AS WELL AND A GENERAL DECLINE IN GROSS DOMESTIC PRODUCT(GDP). MOREOVER, THE SHABA CONFLICT HAS OBVIOUS RAMIFICATIONS FOR THE LONDON BANK AGREEMENT, IMF STANDBY NEGOTIATIONS, 1978 PARIS CLUB RESCHEDULING, AND MOBUTU PLAN FOR ECONOMIC RECOVERY. UNLESS THE GOZ QUICKLY REGAINS KOLWEZI'S PRODUCTION, ZAIRE WILL REQUIRE SUBSTANTIAL EXTERNAL ASSISTANCE TO AVOID A FURTHER DECLINE IN ALREADY DEPRESSED LIVING STANDARDS AND A PROFOUND RESTRUCTURING OF THE ECONOMY. END SUMMARY.

2. GECAMINES' MINING OPERATIONS IN KOLWEZI ACCOUNT FOR APPROXIMATELY 75 PER CENT OF ZAIRE'S COPPER PRODUCTION, 90 PER CENT OF COBALT PRODUCTION, AND 100 PERCENT OF ZINC PRODUCTION--THREE OF ZAIRE'S PRINCIPAL MINERAL EXPORTS. THE FALL OF KOLWEZI HAS THUS ELIMINATED A MAJOR PORTION OF ZAIRE'S MINING CAPACITY. COPPER EXPORTS, AND HENCE EXPORT REVENUES, WILL BE IMMEDIATELY AFFECTED, ALTHOUGH THE FULL FINANCIAL IMPACT OF THE CUTBACK WILL BE DELAYED SIX TO EIGHT WEEKS DUE TO STOCKS IN THE PIPELINE. CONFIDENTIAL

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3. ACCORDING TO THE BOZ, ZAIRE'S NET MINERAL RECEIPTS IN 1977 WERE ESTIMATED AT Z628 MILLION, OR 69 PER CENT OF ZAIRE'S FX EARNINGS. COPPER, COBALT AND ZINC PRODUCTION FROM THE "COPPER BELT" (KOLWEZI-LIKASI-LUBUMBASHI) ACCOUNTED FOR THE LION'S SHARE OF THESE REVENUES:

--COPPER Z396 MILLION

--COBALT 97 MILLION

--ZINC 32 MILLION

DIAMOND PRODUCTION IS THE ONLY SIGNIFICANT MINERAL ACTIVITY OUTSIDE SHABA. THE GOZ PROJECTED TOTAL 1978 EXPORT EARNINGS FROM MINERAL EXPORTS AT Z900 MILLION. COPPER, COBALT AND ZINC PRODUCTION ALONE WERE PROJECTED TO EARN Z810 MILLION IN FX AND KOLWEZI WOULD HAVE ACCOUNTED FOR Z650 MILLION OF THIS. GOVERNMENT REVENUES FROM THE TAXATION OF MINERAL EXPORTS WERE ALSO PROJECTED TO REACH ROUGHLY Z300 MILLION IN 1978. ALTHOUGH COPPER PRODUCTION INVOLVES A HIGH IMPORT CONTENT (ROUGHLY 45 PER CENT AT CURRENT PRICES) WHICH WILL NOW BE SHARPLY REDUCED, THE HALT OF COPPER PRODUCTION IN KOLWEZI WILL STILL HAVE SUBSTANTIAL BALANCE AND BUDGETARY REPERCUSSIONS.

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C O N F I D E N T I A L SECTION 2 OF 2 KINSHASA 4866

DEPT PASS COMMERCE, EXIM, TREASURY

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4. MOREOVER, SGB, THE BELGIAN HOLDING COMPANY WHOSE SUBSIDIARY,
SGM, HAS PRIMARY RESPONSIBILITY FOR MARKETING THE GECAMINES
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PRODUCTION, ADVANCES ZAIRE 80 PER CENT (RECENTLY CHANGED FROM

70 PER CENT) OF THE AVERAGE LME PRICE OVER THE PREVIOUS THREE MONTHS UPON THE EMBARCATION OF GECAMINES' PRODUCTION FROM A PORT. SGM PAYS THE REMAINING 20 PER CENT WHEN THE COPPER IS ACTUALLY SOLD. THUS, THE EFFECT OF THE FALL OF KOLWEZI WILL BE FELT VERY QUICKLY SINCE STOCKS ARE ESSENTIALLY LIMITED TO THE SHIPMENTS CURRENTLY ENROUTE TO VARIOUS AFRICAN PORTS.

5. ZAIRE'S IMMEDIATE FINANCIAL PREDICAMENT IS, THUS, FAR MORE SERIOUS THAN IN 1977, WHEN GECAMINES WAS ABLE TO INCREASE PRODUCTION FROM 407,000 MT TO 452,000 MT DESPITE THE MINOR DISRUPTIONS OF THE "EIGHTY DAYS WAR". THE EXPORT RECEIPTS FROM SOURCES OTHER THAN GECAMINES (DIAMONDS, COFFEE, ETC.) ARE SUBSTANTIAL BUT THE LOSS OF GECAMINES' KOLWEZI PRODUCTION WILL RESULT IN AN IMMEDIATE DECLINE IN MINERAL PRODUCTION THAT WILL IN TURN AFFECT THE MANUFACTURING AND SERVICES SECTORS. THE PUBLIC SECTOR WILL ALSO BE SERIOUSLY AFFECTED AS GOVERNMENT TAX REVENUES FALL SHARPLY. UNLESS THE GOZ REGAINS QUICKLY THE KOLWEZI PRODUCTION OR OBTAINS SIGNIFICANT EXTERNAL FINANCIAL ASSISTANCE, SWIFT DECLINE IN ALREADY ERODED LIVING STANDARDS IS INEVITABLE.

7. IN ADDITION TO THE IMMEDIATE LOSS OF REVENUES FROM KOLWEZI AND ENSURING PRODUCTION CUTBACKS, THE NEW OUTBREAK OF FIGHTING WILL FUNDAMENTALLY ALTER THE ASSUMPTIONS ON WHICH THE LONDON BANK AGREEMENT WAS PREDICATED (THE GOZ WILL BE TEMPTED TO USE THE \$85 MILLION IN ITS BLOCKED BIS ACCOUNT, ITS ONLY EFFECTIVE RESERVES) AND WILL HAVE OBVIOUS CONSEQUENCES FOR A NEW IMF STANDBY AGREEMENT AND THE CONTEMPLATED 1978 PARIS CLUB RESCHEDULING. THE ATTEMPT TO LAUNCH ECONOMIC RECOVERY UNDER THE MOBUTU PLAN WILL ALSO BE SHORT-CIRCUITED. SHOULD THE SHABA CONFLICT PROVE PROTRACTED OR IF THERE IS MAJOR DAMAGE TO GECAMINES FACILITIES, MAJOR OUTSIDE FINANCIAL ASSISTANCE
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WILL BE REQUIRED AS ZAIRE ATTEMPTS A FUNDAMENTAL RESTRUCTURING OF ITS ECONOMY.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, COMBAT OPERATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978KINSHA04866
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780206-1107
Format: TEL
From: KINSHASA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780555/aaaabuih.tel
Line Count: 211
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: e34ec19c-c288-dd11-92da-001cc4696bcc
Office: ACTION AF
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2680403
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC EFFECTS OF SHABA CONFLICT
TAGS: EGEN, EFIN, MOPS, CG
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/e34ec19c-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014